THE SHARED SPACE

The two circuits of the urban economy in underdeveloped countries

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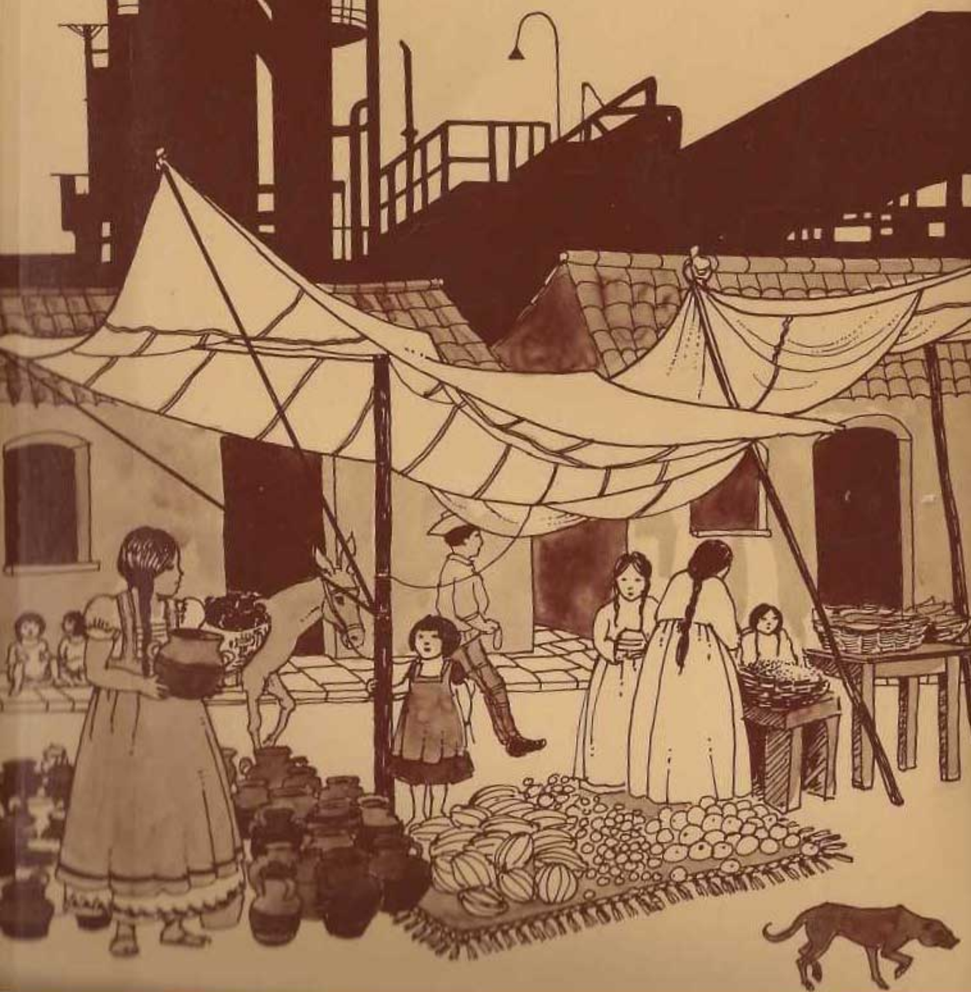

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The financial mechanism of the lower circuit

The fundamental factors in the operation of the lower circuit are credit, financial middlemen, and ready cash. From these three factors one can attempt to analyse the corresponding financial mechanisms. *Credit* is essential both to entrepreneurs for whom it is often the only possibility for entry into, or maintenance of an activity, and to consumers, for whom it represents the possibility of access to consumption even for those without fixed income.

Middlemen furnish credit, most often in the form of merchandise but also in cash, to traders and artisans; moreover, they mediate between urban or rural producers and urban traders. The wholesaler is the most representative of these middlemen providing at the same time one of the principal links with the upper circuit.

Ready cash fulfils several functions within the lower circuit. It represents the money required by the final consumer as well as the entrepreneur to pay off part of their debts so as to obtain new credit. It is also essential for the wholesaler either to buy directly from producers or to pay interest and bank charges. The expansion of modern consumption combined with progressive monetarization of the economy intensifies the need for cash and consequently accelerates its circulation.

Credit, though essential to the survival of many families and businesses, nevertheless leads to an increased indebtedness at all levels. In an economy where cash is both indispensable and scarce, the practice of *usury* becomes generalized. At the same time,

those lacking sufficient funds are often able to devise ingenious solutions to their problems of dependence on middlemen. *Prices* are both an aspect of the functioning of the lower circuit and a form of adaptation to the continually changing situation therein.

Dependence on middlemen (wholesalers and transporters)

The proliferation of middlemen is a phenomenon common to the economies of both developed and underdeveloped countries, yet the causes are not the same. In developed countries, the specialization of activities both by sector and by region is intended to increase productivity and create a market for services. By contrast, in the Third World, middlemen provide the fundamental condition for the functioning of the economy, income distribution being so unequal. The poorer the individual, the more he depends on middlemen for his purchases. Moreover, this dependence increases with the size of the city; for example, in small cities, it is often possible to avoid a certain number of middlemen in the food sector.

The role of the middleman has been modified by economic modernization. He first served as a distributor of imported products and as buyer of export goods, but as urbanization progressed he took on the new role of bulking food products. His importance is due to the fact that most traders are unable to get supplies directly from rural producers, importers, or wholesalers.[1]

When the consumption level of imported products, as well as the level of exports, is low, trade is limited and the number and function of middlemen diminishes. Is this also the situation described by Brookfield in Melanesia (1969: 2), where even the large markets appear to function almost without middlemen?

The chain of middlemen may assume different forms with either the bypassing of one or more levels or the presence and articulation of all. Direct relations between rural food producers and urban consumers tend to disappear with urbanization and as a function of city size. Transport modernization strengthens this tendency, for small producers cannot afford to buy the necessary large trucks.

The middleman, either the wholesaler or the transporter, acts as the link between a supply and demand which is never in equilibrium either in quantitative or qualitative terms. This situation gives the middleman a privileged and strategic role in

supply, a situation which may make speculation widespread. This role is all the more dominant, because of the middleman's privileged access to bank credit and the concomitant ability to purchase in bulk either directly or indirectly. Compared with him, small traders in the market and poor districts seldom have access to the financial resources necessary to acquire agricultural products in this way. Moreover, the number of farmers who take their produce to the city is never high. For example, in the markets of Puerto la Cruz and Barcelona, in Venezuela, producer-sellers represented only 3.6 per cent and 3.9 per cent respectively of the total number of traders, all other merchants buying their produce from middlemen (Erdens 1969). Similarly, at Santo Amaro, near Salvador, in Brazil, only 15 per cent of the foodstuffs sold on the market had been brought there directly by farmers (Motti 1970). In Melanesia, however, producers rarely need to make use of intermediaries as is often the case elsewhere in the Third World (Brookfield 1969:2).

The position of wholesalers is strengthened by their ability to store merchandise whereas, as we have seen, lower circuit traders only store limited quantities of stock because their customers buy in an irregular and small-scale manner. Similarly, once a certain level of urbanization has been reached, perishable food products require a modern system of wholesale trade. The wholesaler, due to his ability to stock goods, becomes an essential middleman between farmer and retailer. Even in general food trade, the wholesaler plays an important role in supplying local merchants, despite competition from transporters.

As previously pointed out, transporters can play either or both of two roles – exclusively serving the wholesaler, and/or the trader. Moreover, he may either own his vehicle or be an employee of a larger operation. Sometimes large firms in the agricultural export trade help drivers purchase their vehicles on condition that they remain available during the busy season. Outside this period he is free to engage in other activities. This is one reason why food prices on the urban markets tend to increase during the period of peak agricultural activity.

The role of the lorry-owner as a retail-wholesaler, transporter, and seller is becoming more widespread for various reasons, such as regional specialization and complementarity in agricultural production, the rapid transport of perishable produce to different markets, the increased distance of cities from areas of production and the inefficient organization of the urban food market.

Table 8.1 Sources of lower circuit food retailers' stocks in two Venezuelan cities (%)

	Coro[1]			*Calabazo*[2]		
	Producer	*Wholesale store*	*Trade*	*Producer*	*Wholesale store*	*Trade*
Rice	37.5	12.5	–	2.6	76.9	20.5
Beans	–	80.0	10.0	–	73.1	26.9
Sugar	4.2	25.0	24.2	4.0	76.0	20.0
Potatoes	11.1	5.6	55.6	–	100.0	–
Non-prepared cereals	2.9	37.1	60.0	–	66.7	33.3
Prepared cereals	81.8	18.9	–	–	80.0	–
Canned goods	13.4	51.2	22.0	3.2	67.7	29.0
Eggs	23.1	37.2	19.2	33.3	26.7	33.3
Pâté	–	71.4	21.4	2.9	51.4	40.0
Oils	–	–	–	33.3	50.0	33.3
Corn	–	–	–	–	55.6	22.2

Sources: (1) Chollet *et al.* (1969); (2) Albertini *et al.* 1969.

Transporters often act as middlemen between farmers, from whom they buy, and market traders, whom they supply. A survey conducted at Punto Fijo, Venezuela, showed the purchases by market-traders from transporters to vary from 25 to 100 per cent of the total, according to the product; at Coro they fluctuated between 20 and 100 per cent (Chollet *et al.* 1969). At Barcelona, 61 per cent of the products were normally supplied by vehicle operators (Erdens 1969). Transporters have more than one source of supply, however: at Coro, which is in a poor agricultural region, 67 per cent of their purchases are made directly from producers and 33 per cent from warehouses. At Punto Fijo, they purchased around 80 per cent of their goods directly from local producers (Chollet *et al.* 1969). Transporters sometimes supply each other: for example, 20 per cent of the vehicles covered in the El Tigre market survey had obtained their merchandise from other vehicles (Valladares 1969). This can be explained by the existence of many poor roads which will not allow the passage of heavy vehicles. It would be unprofitable for small quantities to be taken to the city so many sell their goods to the owners of larger vehicles.

The importance of liquidity in the lower circuit

Certain writers such as Bognar (1968:165) believe that a large part of the population in underdeveloped countries lives in a subsistence economy outside the normal flow of goods and money. However, this view stems from confusion between the wage-earning class and the monetary economy (see, for example, Kay 1970:69 on Rhodesia). Though a country may have only a small number of permanent wage-earners, which is the case for many Third World countries, the population may still participate in a monetary economy. Moreover, it has been affirmed that the use of cash is becoming more widespread. Even if transactions take place on credit and on a very small scale, they are still made in money terms. The development of unorganized trade and the introduction of new models of consumption has contributed to the spread of monetarization.

Non-monetary urban consumption is disappearing as urbanization progresses and city size increases. Orlove (1969:53) on Rio de Janeiro, Mangin (1967:76) on Lima, and Lisa Peattie (1968:31-4) on a Ciudad Guyana shantytown (where she found that production for use was limited and marginal), all agree that the cash economy is now the general rule in poor urban districts. Urbanization in effect requires the use of cash as the medium of exchange, i.e. the introduction of the *cash nexus* (Hay and Smith 1970:121). Moreover, while exchanges generally take place on paper in the upper circuit, in the lower circuit transactions are carried out in cash. For example, at Saida, Algeria, in a survey of 801 businesses, only 6 per cent admitted to using cheques in their day-to-day operations. Of these 50, 19 were food wholesalers, and 15 sold household goods. Only one of the 334 small food traders used cheques (Champseix *et al.* 1972).

A *Monetary circulation*

The increasing ratio of money-in-circulation to the money-supply[2] arises out of a rate of monetarization of the underdeveloped economy which has far outstripped the expansion of its banking system (Engberg 1967:52-3). Consequently, transactions should be effected in cash; this assertion is not in contradiction with Short's thesis (1973) in which he states that the expansion of the banking network and subsequent changes in consumer-behaviour (e.g. the tendency to open medium and long-term

bank accounts) intensifies the demand for the remaining money supply, thereby increasing the velocity of monetary circulation. The monetarization of agriculture also accelerates circulation, since its products are almost invariably sold for cash. Moreover, a dynamic modern economy tends to absorb capital, thereby aggravating its scarcity in the lower circuit where monetary demands are usually met by a more rapid circulation of money.

There is a great disparity between the money supply available to the lower circuit and the number of users. This has two results: first, credit becomes essential and second, the velocity of monetary circulation accelerates to compensate for the scarcity of capital; these results are always inextricably linked and their relative importance depends on the local economic structure and its cyclical variations. Le Chau (1966) has shown for the Ivory Coast that during periods of heavy trading and concomitant accelerated monetary circulation, urban market-women make larger unit profits. In Latin America, the practice of paying an extra month's wages at Christmas helps increase the amount of money in circulation a well as the number of temporary businesses.

The effects of inflation on the lower circuit must be examined within the context of this rapid monetary circulation. Deflation does not benefit workers, for their real wages tend to fall (Maneschi 1971; Ianni 1971; Rattner 1967); inflation, however, is no better, for it acts as a mechanism to exploit the poor, increasing prices faster than wages. Those who benefit from inflation are those able to invest in sectors where value expands along with the inflationary spiral. This is perhaps why certain governments prefer inflation to taxation as a means of financing the budget (Griffin 1971:16).

Within the lower circuit, inflationary cycles help to increase employment, since it is at such times that upper-circuit money-supply expands and the velocity of circulation accelerates. It would, however, be wrong to examine the consequences of inflation on either the poor or the lower circuit without placing them firmly within the context of urban society as a whole. It can be shown that inflation benefits the *favela* inhabitants who own their homes (Orlove 1969:60), and, moreover, that inflation may benefit the indigenous elements of the distributive system. However, the essential question lies in the distribution of benefits among all sections of society. Whilst inflation affects all levels of tertiary activity, landowning classes are the major beneficiaries

(Lambert 1968), for inflation acts as a form of regressive taxation (Frankenhoff 1971:133-4). Once again, there is no inconsistency between the absolute expansion of the lower circuit taken as an isolated entity, and the fact that one of its functions is the enrichment of the upper circuit.

The lower circuit is clearly 'hungry' for cash, though this does not alter the fact that the poor urban economy can only function through credit. Capital-scarcity means that credit must often be used to establish or maintain a small business; yet to maintain credit some liquidity is necessary, at least to pay the initial part of the debt. Cash primes the credit-pump and then keeps the mechanism 'lubricated' (Geertz 1963:39) through its function as a means of payment.

However, whilst the total money in circulation throughout the lower circuit is considerable, each individual transaction involves only a very small sum. Small denominations of currency are therefore essential to these commercial activities. Brisseau-Loaiza (1972:36) cites the case of 'a small Sunday market at Puno, near the Peruvian city of Cuzco, where it was impossible to change a 50 *sol* ($1) note'. Often there is such a shortage of small change that traders are forced to actually buy it, the rate of exchange between small change and banknotes varying with the scarcity of the latter; bus conductors often benefit from this particular form of trade. In certain Indian cities the shortage of small change is so severe that merchants accept postage stamps as payment and give change in the form of merchandise (Johnson 1970). This practice is also widespread in Latin America and has been observed in Indonesia (Boeke 1953).

Rapid circulation of money is facilitated by the large number of middlemen and entrepreneurs in the lower circuit. Moreover, a high rate of circulation permits more subsistence employment and consumption as Bray (1969:544) points out; yet as the capital is in current circulation, little of it can be accumulated. This is one of the reasons why people remain poor.

B *Lack of liquidity and the demand for credit*

The scarcity of capital affects all small enterprises; the lack of liquidity being even more serious than that of fixed capital. This problem is often attributed to formal banking procedures but, in reality, the causes must be sought in the functioning of the entire economic system. Capital is only invested in operations where

profitability is assured. If each lower circuit enterprise were taken individually, many would probably show a high rate of return on invested capital; this is especially true given the rapid circulation of capital.

The major obstacle to the acquisition of capital, however, remains the need to pay accounts on fixed dates. The rules of the upper circuit banking sector are incompatible with those controlling the lower circuit. Because of this conflict between the banks and the lower circuit, people turn to more flexible wholesalers and moneylenders. This is as true for the rural population, as Myint (1965:71) has shown, as it is for the urban poor. The banks (given their scale of operations) are well behind the moneylenders in extending credit to the lower circuit population. Compromises are often found, as in Thailand (Rozenthal 1968:40) where the banks entrust sums to local moneylenders who in turn lend it out according to the market. However, this practice is declining. Myint (1970: 140-1) believes that the existence of even a large number of financial middlemen represents a less costly solution for the economy than the bank's extension of credit to lower circuit activities.

Credit is sometimes granted by customers. For example, an artisan may receive credit in the form of cash or raw materials as an advance payment from customers or from the trader who sells his production. The artisan is thus doubly disadvantaged since he is forced to accept an imposed price for his product and often must pay usurious rates of interest.

The scarcity of investment-capital in lower circuit activities is not always due to poverty or insolvency. Those who manage to accumulate capital in lower circuit commerce often do not reinvest the profits in their primary activity, but in sectors such as transport, housing construction, or agriculture.[3] This lateral investment can be explained by the fact that successful traders attempt to diversify their investment mainly to reduce risk or avoid market fluctuations. Yet by tying up capital elsewhere they often have recourse to external financial sources for the maintenance of their primary activity.

C *Financial ingenuity and mutual aid associations*

The availability of cash means financial middlemen can be avoided and larger profits realized. Therefore, it is not surprising that traders sometimes find ingenious methods of protecting

themselves against liquidity crises. One example is selling at a loss, which constitutes a form of self-financing from debt. A trader may obtain credit in merchandise from his regular intermediary, reselling for cash but at a loss; with this cash he then buys goods which have an assured and lucrative market. This 'gold coasting', found in Uganda (A. Martin 1963:16-17), Nigeria and several other African countries is just one of many forms of cash sale at a loss. The practice results directly from the need for capital, and according to Katzin (1964:188), it is an excellent example of trading ingenuity.

A common way of increasing profits lies in the practice of a type of 'trade triangle'. Traders with cash reserves visit different places where they know in advance it is possible to buy cheaply and to sell with a good margin of profit. This technique, however, requires constant travel and an excellent knowledge of regional conditions. A simpler mechanism used by certain traders is to supply themselves directly from the producers. For example, manioc bread is sold in this way in Brazzaville (Auger 1972:295) bringing to those who bring the raw materials from the manioc-producing areas a weekly profit of 31 per cent.[4] Traders in the same commodity also often meet to decide a single price to be offered to the producer or middleman. Such groups as these in Kumasi, Ghana have been called commodity associations by Polly Hill (1962:12-13).

Alongside these particular commercial practices are to be found the real mutual aid associations, in which various ingenious ways of improving financial conditions through group action have been devised, such as the *tontine* of the Cotonou market-women of Dahomey. Every day a group of market-women collect a sum of money from each of their members, the total being made available to just one member of the group on a rotating basis. This cash allows each woman in turn to buy a larger quantity of goods at a cheaper unit price, thereby avoiding usurious interest rates, enabling a larger profit to be made and thereby temporarily strengthening her market-position. The same method is to be found in Dakar under the name of *nath*[5] and similar arrangements can be observed in many other African cities, such as Brazzaville (Balandier 1955), the Yoruba and Ibo towns of Nigeria (Katzin 1959; Geiger and Armstrong 1964:56; Katzin 1964: 185) and among the Bantu, Kikuyu and Bakanda (Hoyt, 1952:170). In Singapore, the same groups are to be found (Buchanan 1972:237); in Korea, they are known as *kye*,[6] with

many traders often belonging to more than one at a time (Barringer 1971:310; M.-G. Lee 1971:368-9).

Lastly, financial associations are often formed. One of them, observed at Onitsha, Nigeria (Onyemelukwe 1970) is the 'bank of the poor' described as follows by Katzin (1964:192): 'collector calls daily at the place of business of each customer and records his contribution in a book retained by the saver. At the end of each month the total contributed during the month is returned, less one day's retained by the 'bank' in payment for its service. It is probable that the money is put out on short-term loans by the bank during the month it has these funds.'

These methods, often called improvement associations (Hasking 1964; Katzin 1964) are indicative of a great creative ability on the part of the poor. As Kotter (1964:24) has pointed out, this is a relatively recent development and does not exist in the countryside. It should be noted, however, that these are not imported, but rather local innovations satisfying to some extent the same pressing demand for liquidity and providing a temporary relief from usury.

These mechanisms therefore permit a greater degree of capital accumulation than would be possible through the modern banking system. Could this informal, non-institutionalized, fragile system be replaced by an institution which remained nevertheless well-adapted to the unique conditions of the lower circuit and able to guarantee the permanence of these small-scale activities? Would this not maintain the level of employment, and contribute to the growth of the economy? Yet co-operatives such as those found by Choldin (1968) in Comilla, Bangladesh (where 60 per cent of the farmers belong to co-operatives) and which brought together small traders, artisans and rural producers, are all too infrequent.

From credit to indebtedness

A *Consumer credit*

Credit is a necessity for the consumer who is more often than not both poor and without a permanent job. Without credit, it is impossible for him to provide for his family, since temporary or occasional work only gives a correspondingly insecure income.

The urban poor are not able to obtain credit from the modern

trade sector, which is generally located far from their residential districts and reserves such a service only for the creditworthy.

Products sold in modern commerce (e.g. in supermarkets) are standardized and indivisible; moreover, relations between employee and customers are impersonal. Only lower circuit small-scale commerce is adapted to the conditions prevalent among the urban poor; it provides credit and breaks up merchandise into smaller quantities. (Lasserre 1958:184-5). As Vennetier (1960) has pointed out, the retail trade 'responds to economic necessity – the buyer may have 10 francs a day to buy sugar, but he will never have spare the 80 francs necessary to buy a kilogram'. The poor are not indifferent to prices as some writers have maintained; it is a mistake to interpret their behaviour from a purely cultural standpoint. In reality there is only one type of economic relationship possible in the conditions obtaining in the poor urban economy.

Modernization of consumption has increased the need for credit not only among the most deprived but also among the middle classes. Demand profiles have become distorted and the number of wants has increased without a parallel rise in income. Consequently, the individual finds that he must simultaneously budget at two levels: (i) expenditure on goods and services requiring immediate payment or installments, and (ii) goods that can be obtained through delayed payment are bought in the lower circuit through personal credit. The relative importance of each form of payment in aggregate expenditure primarily depends on an individual's income position. Thus the lower circuit allows everyone to participate (though to varying degrees) in modern consumption whilst continuing to assure daily and essential current consumption to both by the poor and middle classes.

Since lower circuit food traders appear to have customers in different social classes,[7] it is hardly surprising that such commercial activities are so numerous in Third World cities, as Table 8.2 shows.

Whilst a small number of people become indebted in order to eventually increase their wealth, most of the Third World urban population run up debts in order to consume. Both conspicuous consumption (induced by modernization) and essential consumption maintain the growth of the lower circuit. Credit is supplied through a downward chain of middlemen generally starting with the wholesaler, since he is the one with access to bank credit. The raison d'être of such credit, however, is found by

Table 8.2 Food-marketing as a proportion of all commercial activities (%)

	City	*Market*
Tindivanam, India [1]	42.5	
Port-au-Prince [2]	63	
Kinshasa (a quarter) [3]	49.2	
Point-à-Pitre [4]	58	
Merida, Venezuela [6]	70	
Grand Delphi [6]	23.5	
Haut Sanaga, Cameroon [7]	41	
El Tigre, Venezuela [8]	72.5	
Abidjan [9]	77.7	
Toulepleu, Ivory Coast [10]		89
Lima [11] (wholesalers)	75	77 (average)
(street vendors)	62	
Accra [12]		54.5 – 84.5
Santo Amaro, Brazil [13]		60
Hong Kong [14]	68-74	
Anyama, Ivory Coast [15]	66	85
Sholapur, India [16]	47.1	72
Bouaké, Ivory Coast [17]	80	

Sources: (1) Charleux 1971:389; (2) Casimir 1965; (3) Denis 1954; (4) Menauge 1970:33; (5) Valbuena 1966; (6) Rao and Desai 1965:392; (7) Tissandier 1970:11; (8) Valladares 1969; (9) S.E.T.A.P.1959; (10) Schwartz 1969:63; (11) Santos 1973; (12) Lawson 1967a:169; (13) Motti 1970; (14) McGee 1970b; (15) Verrière 1969; (16) Gadgil 1965:169-70; (17) Joshi, *et al.* 1976.

examining the upward process which begins with the consumer. While credit is made available by the upper circuit to stimulate production, consumption forms the basis of credit in the lower circuit.

Since credit is personal and usually extended among friends, acquaintances, and neighbours,[8] many small businessmen are reluctant to give credit to civil servants whose high inter-city mobility increases the risk of non-repayment. Normally those with small and irregular incomes do not default on their debts.[9] A debt (both in terms of gratitude and money) assures a given size of clientele; a personal relationship between debtor and creditor is established at all levels of the lower circuit.[10]

The conditions under which credit is furnished to both entrepreneur and consumer make many usurious practices possible: upper circuit money is expensive, and when coupled with a lack of security, results in a high interest rate on loans.[11] Mintz (1956: 19) tells of a street vendor who every three days paid a shilling on

every pound he had borrowed; this was equivalent to an annual interest rate of 600 per cent! As it is practically impossible to penalize bad debtors, the money-lender becomes dependent on his debtors to a certain extent.

The lower classes go into debt primarily for current expenditure while the middle classes go into debt for non-essential expenditure; a survey conducted at Pointe-à-Pitre, Guadeloupe shows the variation according to the degree of poverty among (i) shantytown residents, (ii) residents who have been relocated, and (iii) public housing tenants:

Table 8.3 Use of credit

	Shantytown		*Relocated*		*Public housing*	
	%	No. of households	%	No. of households	%	No. of households
Current expenditure	34.9	44	57.7	65	12.7	15
Non-essential expenditure	20.6	26	9.4	12	42.3	50
Current and non-essential expenditure	42.8	54	39.3	50	26.2	31
No use	1.5	2	0	0	18.6	22
Total households	100.0	126	100.0	127	100.0	118

Source: Goudet (1969).

Going into debt permits the poor to survive and the majority of the population to respond in some way to the demonstration effect; this constitutes a mechanism for the appropriation of popular savings. The profit margins which protect traders from risk and maintain them until credit is repaid, are part of the same exploitative mechanism in which the profits which apparently maintain the lower circuit *return* to the upper circuit through various channels, such as the bank, for example.

B *Entrepreneurial credit*

The wholesaler serves as the link between the modern circuit and the lower circuit because of his position at the head of a long chain of dependent retailers; he is the only operator in the circuit with sufficient guarantees to obtain bank credit. One could possibly even speak of collusion between the banks and wholesalers (Engberg 1967:64).

The following examples from Saida, Algeria (Champseix *et al.* 1972) show the differential use of banks according to the size and type of enterprise: 68 per cent of the wholesalers had a bank account in Saida or Mascara. All wholesalers dealing in food, beverages, and gas had an account and 33 per cent could obtain bank credit. All middlemen kept a bank account and 71 per cent were able to obtain credit. In contrast, 85 per cent of the artisans questioned in Saida, said that they did not have a bank account; for them, bank credit was even less possible than possession of an account. Of the 803 businesses interviewed in Saida, only 19 had been established through bank credit. The following table shows the situation for commercial and service activities:

Table 8.4

	Total no. of establishments	*Establishments obtaining bank credit*	
		No.	*%*
Transport	11	3	27.3
Food wholesalers	31	18	58.1
Cloth/leather	103	5	4.9
Food	334	1	0.3
Beauty and hygiene	39	0	–
Street vendors	55	0	–
Hotels, restaurants	45	0	–

Source: Champseix, *et al.* (1972).

As can be seen, bank credit is not readily available except for the wholesalers. The small-scale activities of the lower circuit cannot offer sufficient guarantees to obtain this type of credit and the very nature of their operations prohibits payment of bills on a fixed date. In any case, the small scale of the operations would not be profitable for the bank. Moreover, lower circuit traders, as well as small farmers, are aware of the dangers of taking bank credit which would ruin them were they unable to honour their debts.

Since most wholesalers impose conditions for the supply of goods, both new arrivals in the profession and small-scale traders are forced to seek credit from small wholesalers, retailers and large market traders, whose terms of credit are very different from those of the major wholesaler and are adapted to the particular functioning of the lower circuit. The further one goes down the scale of middlemen, the smaller the size of operations,

the shorter the duration of the loan and the higher the risks and interest rates. The major and minor wholesalers' permanent fear of default restricts his loans to relatively small amounts made available to the most creditworthy clients.[12]

Credit generally takes the form of an advance in merchandise, the amount varying according to the ability of the borrower and the turnover of his stock. Fast-moving lines receive smaller and shorter credit than slow-moving lines. The term for which credit is extended is generally short, ranging from a morning to a week, or more infrequently to a month. The time-limit may also be adapted to seasonal fluctuations – shorter, for instance, during active economic periods when there is more money in circulation. In Guadeloupe, for example, the small trader must pay his debts in 30 days during the sugar-cane harvest and in 45 to 60 days between harvests (Menauge 1969).

It is not in the interests of the wholesaler to tie up his capital for long periods since frequent loans make more profits for him. Moreover, the terms of commercial banking credit are much shorter than those of industrial or agricultural credit. Finally, a reduction in repayment-time may be observed throughout the Third World. The expansion of the modern sector, which has greater access to banks, has reduced the direct sources of wholesalers' finance. His chances of obtaining bank credit reduced, the wholesaler is forced to circulate his capital even more rapidly.[13]

A loan is seldom repaid in a lump sum.[14] The borrower will often wish to remain in debt in order to obtain more credit, while the creditor on the other hand limits the new supply of credit in such a way that default would not endanger his future operations, a situation which involves a delicate balance. The wholesaler would survive with difficulty if he did not continually supply traders lower down the scale, even if he sometimes sells at a loss. Neale, Singh and Singh (1965:137) note that, in India, the Arthiyas 'to avoid losing money on sales, held stocks and consequently became illiquid'. The middleman looks for permanent stock-replacement, whilst the lender needs regular and sizeable clientele, assuring him of potentially larger accumulation.

Profit margins

The division of goods into small quantities leads to an increase in retail prices for the final, usually poor, consumer.[15] Under such

circumstances, the small stock of the retailer is the result of his merchandise having passed through many middlemen's hands. The small trader sells only very small quantities to each customer; Table 8.5 from Bouaké, Ivory Coast illustrates both the phenomenon of multiple middlemen and that of micro-retailing.

The result of these parallel tendencies is a rise in prices because of the large number of middlemen and the high profit margin per unit required by the small trader. This high margin is due to the small, uncertain nature of his sales as well as the fact that the small trader sells on credit; total profit on the other hand remains relatively limited.

Whilst in principle the profit-incentive exists among commercial activities in the lowest levels of the lower circuit, in reality the prime preoccupation is survival. 'Few traders can think in terms of selling at cost plus *x*% (Hawkins 1965:108). It has even been observed that traders do not wish to make large profits: one of Fox's informants said, 'I get my daily bread from the shop and that's all I need. Why should I think of more when I meet my expenses from it?' Another declared, 'Whatever I have, I am satisfied with and whatever the future will bring will be alright too. When I earn little I spend little' (Fox 1967:303).

It is difficult to determine accurately the profits made by small-scale commerce; nevertheless, enough studies have been conducted, particularly in Africa, to conclude that profit margins are sizeable, which contradicts Belshaw's (1965:57) remarks on the subject.

Profit margins depend upon the type and origin of the product, the size of the establishment and the rate of stock turnover. For example, it is commonly found throughout the Third World that profit margins vary from 100 to 2000 per cent for local commodities while ranging only from 50 to 350 per cent for imported products. This situation is explained by the fact that variations in local production do not have a marked influence on consumer prices. When the harvest is poor, the law of supply and demand operates freely, but when the harvest is better, middlemen intervene to maintain high prices for their own profit. Profit margins are generally higher for perishable foodstuffs.[16]

Moreover, profit margins are highest in small-scale commerce. For example, in the Ivory Coast, they are estimated at 5 per cent for import-export trade, 10 per cent for wholesale trade and 18 per cent for retail trade (Amin 1967). Foodstuffs in particular often have even higher profit margins. At Toumedi, Ivory Coast

they may reach 27 per cent for beverages and spices (Bettignies 1965:70). Street vendors seem to have even higher profit margins than small merchants. Could one infer from this that profit margins increase as the level of commercial activity decreases?[17]

It seems that the smaller the amount of capital invested, the higher the profit margin, as Marris has observed in central Lagos (1962:76). In Anyama, Ivory Coast, profit margins average 10 per cent in the bazaars, and somewhat higher among the Syrian and Lebanese traders whose stock sells more rapidly. In the African shops profit margins rise to 15 to 18 per cent yet the static hawkers have the highest profit margins of all, generally fluctuating around 30 per cent but varying on each product: sugar, 66 per cent; flashlights, 60 per cent; cigarettes, 68 per cent; chewing gum, 43 per cent; underwear, 33 per cent; candles, 25 per cent; sandals, 43 per cent (Verriere 1969). The low-income consumer is penalized because he must buy at the extreme end of a long chain of middlemen; having little money, he must pay relatively more for his subsistence.

Total profit must not, however, be confused with profit per unit. While total profit increases with the size of an establishment, the smallest commercial units are the ones having the largest profit margins. The street vendor limits his wares to several products with both attractive cost and selling prices, whilst small, local merchants must offer a wider range of products. Hawking is more risky, however, for sales are less sure and some days may amount to nothing. Consequently, while the profit per unit is very high, total profit may be very small or even nonexistent.

Price mechanisms

Prices in the lower circuit depend on the supply conditions facing the trader and his existing customer-relations. For instance, there is considerable fluctuation in the quantity of foodstuffs offered on the market; prices tend to rise when supply is limited, especially when wholesalers are able to speculate. Seasonal variation in transport costs also causes price fluctuations. Finally, prices may increase during periods when more money is circulating in the lower circuit. Yet the relations established between seller and buyer result in short-run price variations. It should be noted, however, that haggling originates as much in seasonal conditions as in a gradual process of agreement between buyer and seller.

Supply, like demand, according to Marshall (1927:182) should

Table 8.5 Division of major consumer goods, Bouaké, Ivory Coast

Commodity	*As received by wholesaler*	*Sold by wholesaler*	*Sale by retail-wholesaler*	*Retail in city to high income consumer*	*Retail in shops and by vendors*
Kerosene	5,000–30,000 litre tank	200 litre barrel (28 francs per litre)	10 & 20 litre barrel (30 francs per litre)	35 francs per litre	45 francs per litre (sold in 5 franc measures)
Sugar	25 kg carton	25 kg carton	5 kg carton	1 kg package	5 F heap
Salt	25, 18 and 9 kg bags	25, 18 and 9 kg bags	18 and 9 kg bags	25, 18, 9 and 1 kg bags	5 F heap
Wine	Case of 10 or 15 litre bottles	Case of 10 or 15 litre bottles	Case of 10 or 15 litre bottles	1 litre bottle	1 litre bottle or 20cl glass in bars and restaurants
Cloth	bales of 50 12-yard pieces	bales of 50 pieces	12-yard pieces	6-yard pieces	6- or 2-yard pieces
Dry batteries	Box of 300 batteries	Box of 300 batteries	Pack of 50 or 12	Individually	Individually
Cigarettes	1200-box carton in 40-carton case	1200-box carton	10 or 100 box carton 25-package box	1 or 10 box carton package	5 F for 2 cigarettes, or individually

Source: Republique de Côte d'Ivoire (1966).

not be considered as stock but as a flow over time. Therefore, entrepreneurial behaviour and decisions should be examined in terms of a given time-horizon (Adelman 1966:37). Is Marshallian theory applicable to the lower circuit, where the time scale is clearly not the same as in the upper circuit? This difference explains the different prices charged for the same product by two neighbouring traders, or the spectacular variations in prices charged by a hawker from one day or hour to the next. This situation may appear to the observer to be economically irrational, and one might well wonder how trade survives under such anarchic price conditions. However, the anarchy and irrationality are only apparent; in fact, the system's internal logic is based on, among other factors, the time scale characterizing lower circuit commerce. To hold stocks for a few hours or days may be more detrimental than selling it at such a low price that a loss is apparently made. In reality, 'lost opportunities' are compensated for by the return to liquidity necessary for new purchases to be made and thus permit the trader to reinvest and return to active business.

According to Scitovsky (1971:40), there is generally a relationship between changes in consumer demand and price fluctuations.[18] In underdeveloped countries, however, the essential consumption of the poor is independent of price fluctuations mainly because it is usually obtained on credit.

Prices depend in part on the perishability of a product and the seller's ability to affect this. The latter tries to sell the most perishable goods as fast as possible, and if they cannot be sold at the regular price they are offered at what could be called a bargain price. An example of this flexible opportunity cost is the vegetable seller without a refrigerator who sells at a loss when it becomes clear that stock will be left over; another is the taxi driver who cuts his rates when the number of customers decreases during certain periods of the day. Such products are perishable and must be sold at a loss rather than be wasted. The ability of a customer to postpone purchase also affects prices; these tend to be relatively higher for essential daily consumer goods than for non-essential products, whose purchase can be postponed. Moreover, merchants are often forced to sell at a loss in order to honour at least a part of a debt.

A trader's profit depends on total sales, a situation which could be compared to the *cultura promiscua* in which many crops are grown to ensure that at least one will provide sufficient returns.

This 'lottery' is the only solution open to farmers who are subject to both the vagaries of the climate and scarce financial resources. Bargaining is one of the most characteristic aspects of price formation in the lower circuit. As Scitovsky (1971:19) points out, bargaining is only possible within the framework of small-scale economic activity. Dewey (1962) defines it as an operation of adjustment between interested parties due to the fact that quality and quantity of goods supplied are both variable. Thus there would be three possible outcomes – more goods for the same price, a fall in price, or a combination of both. Dewey's explanation, like that of Hagen (1968:65) who sees haggling as a form of pleasure, has a purely psychological perspective.

In addition to these cultural explanations, economics has also been used to explain bargaining. Price is subjected to the fluctuations of supply and demand, so market-operations need a self-regulating mechanism (Belshaw 1965:8); Uchendu (1967) adds that bargaining thus becomes an economically rational act.

It must be remembered that the phenomenon of seasonal price structure has become much more marked with the tendency toward geographical specialization of production. In regions where transport is poorly developed, such as Melanesia, relatively uniform price structures can still be found; traders prefer to retain their goods or to destroy them rather than sell at a price judged too low (Brookfield 1969:19).

Bargaining does not have equal importance for all products; rather it depends on whether the product is perishable, seasonal, indispensable, necessary, or simply useful. The pressure on the seller (due to the nature of the product to be sold) and that exerted on the individual wishing to purchase, are both crucial; most foreigners are unable to participate in such transactions because of these two factors (Hodder 1969: 88; Loupy 1971:9; Dewey 1962:74). Hagen (1968:61-2) thinks this 'sliding system' is reserved for non-standardized goods and occasions when bargaining-time is disproportional to the range of possible financial outcomes. However, today's lower circuit trade includes both standardized and non-standardized products while the concept and value of time varies from society to society.